

## Message Text

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67

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 DODE-00 PM-04 H-01 L-03 PA-01 PRS-01  
SEC-01 /100 W

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P R 090209Z DEC 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 4075

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

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DEPT PASS FEDERAL RESERVE, CEA, LABOR

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS--DEC 2 -8

1. SUMMARY: WEAKENED PARLIAMENTARY POSITION OF LDP PARTY  
RESULTING FROM DEC 5 DIET ELECTIONS SEEMS UNLIKELY TO ALTER  
SUBSTANTIALLY COURSE OF GENERAL JAPANESE ECONOMIC POLICY IN LONGER  
RUN, ALTHOUGH POLICYMAKING PROCESS ITSELF MAY BECOME SLOWER  
BECAUSE OF NEED TO CONSULT MORE EXTENSIVELY IN DIET ON POLICY  
CHANGES. IN SHORT-RUN, ECONOMIC DECISIONS, FOR EXAMPLE  
SUPPLEMENTARY BUDGET FOR FY 1976, WILL BE DELAYED. INITIAL  
SHOCK OF LDP SETBACK WAS QUICKLY DISSIPATED, AND ATTENTION  
TURNED TO WORKING OUT A FURTHER PACKAGE OF ECONOMIC STIMULUS.  
PRESSURES CONTINUE ON BOJ TO CUT DISCOUNT RATE, WHICH IT MAY  
IN END DO, BUT MONETARY SLUICE GATES UNLIKELY TO BE  
OPENED WIDE. IN ITS YEAR-END LOOK AT THE WORLD  
ECONOMY, EPA ACKNOWLEDGES LEADERSHIP ROLE TO BE PLAYED  
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BY COUNTRIES WITH STRONG CURRENCIES INCLUDING JAPAN IN BRINGING

WORLD OUT OF CURRENT ECONOMIC DIFFICULTIES. END SUMMARY.

2. MOST CLEAR IMPLICATION OF SETBACK SUFFERED BY RULING LDP IN DEC 5 ELECTION IS DELAY IN TAKING A NUMBER OF IMPORTANT ECONOMIC DECISIONS. IT IS NOW EXPECTED THAT AN EXTRAORDINARY SPECIAL DIET SESSION TO RATIFY THE LDP CHOICE OF PRIME MINISTER WILL NOT BE COVENED UNTIL AFTER DEC 20. THE REGULAR DIET SESSION ITSELF IS EXPECTED TO BEGIN DEC 30 BUT IT WILL NOT GET DOWN TO REAL BUSINESS UNTIL AFTER THE NEW YEAR'S HOLIDAY. AS A RESULT, PASSAGE OF A SUPPLEMENTAL BUDGET FOR THE CURRENT FISCAL YEAR (1976) WILL MOST LIKELY BE DELAYED UNTIL AFTER THE HOLIDAYS.

IN ADDITION, PREPARATIONS FOR AND ACTION ON THE FY 1977 BUDGET WILL ALSO BE SET BACK, AND PERHAPS WILL NOT BE COMPLETED UNTIL AFTER THE BEGINNING OF THE FISCAL YEAR (APRIL 1, 1977). FIN MIN OHIRA, RECOGNIZING THAT CONTINUED UNCERTAINTY NOT DESIRABLE, HAS URGED THAT THE CARETAKER GOVT PUSH AHEAD AND DECIDE ON ITS PROPOSALS FOR THE SUPPLEMENTAL ASAP.

3. THERE IS LITTLE TO SUGGEST MAJOR CHANGES IN GENERAL JAPANESE ECONOMIC POLICY AS A RESULT OF THE ELECTION OUTCOME. BASICALLY, THE LDP REMAINS IN THE DRIVER'S SEAT, EVEN IF SOMEWHAT MORE PRECARIOUSLY THAN BEFORE THE ELECTION. THE POLICYMAKING PROCESS WILL DOUBTLESSLY BE SOMEWHAT SLOWER BECAUSE OF THE NEED FOR THE LDP WITH ITS THIN MAJORITY TO EXTEND AND DEEPEN ITS CONSULTATIONS WITH OTHER DIET GROUPS, BUT EXTENSIVE CONSULTATION IS CERTAINLY NOT NEW IN JAPAN. ALTHOUGH THERE MAY BE MORE NODS IN THE DIRECTION OF OTHER PARTIES, ECONOMIC POLICY ITSELF WILL PROBABLY CHANGE LITTLE. MOST IMMEDIATELY THERE APPEARS TO BE ALREADY BROAD CONSENSUS IN JAPAN THAT FURTHER ECONOMIC STIMULUS TO COMBAT CURRENT STAGNATION IS REQUIRED PROMPTLY. IT SEEMS ALMOST CERTAIN THAT THE FISCAL 1976 SUPPLEMENTAL BUDGET WILL BE FOCUSED ON EXPENDITURE INCREASES. THE POSSIBILITY (STILL RATED LIKELY) AND SHAPE OF A TAX CUT IN FY 1977 DEPEND MORE ON CONDITION OF ECONOMY IN FIRST QUARTER NEXT YEAR THAN ON ANY SHIFT IN THE BALANCE OF

POWER IN PARLIAMENT.

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4. NEWS MORNING DEC 6 INDICATING PROBABLY LDP ELECTION SETBACK PRODUCED INITIAL FLURRY OF SALES ON THE STOCK MARKET AND DOLLAR PURCHASES IN THE FOREIGN EXCHANGE MARKET. BUT BOTH STOCKS AND THE YEN (LATTER WITH SOME WELL-PUBLICIZED ASSISTANCE FROM THE BOJ) MORE THAN RECOUPED THEIR LOSSES BY THE END OF

THE DAY. IN THE DAYS FOLLOWING THE STOCK MARKET HAS BEEN NOTICEABLY BUOYANT AND THE FOREX MARKET RELATIVELY QUIET. IN

PART THIS CHAIN OF EVENTS CAN BE EXPLAINED BY THE FACT THAT THE INITIAL SHOCK OF NEWS THAT THE LDP WOULD NOT ACHIEVE A MAJORITY WAS SOON FOLLOWED BY ASSURANCES THAT THE LDP WOULD AGAIN LEAD THE GOVT, AS INDEPENDENTS WERE TAKEN INTO THE LDP RANKS AND LDP FEELERS WENT OUT TO ACHIEVE SOME SORT OF WORKING RELATIONSHIP WITH CONSERVATIVE OPPOSITION PARTIES. FURTHERMORE, PRESSURES ON MIKI TO RESIGN AS A RESULT OF THE LDP SHOWING PROMISED AN END TO INTRA-PARTY STRIFE. IN ANY EVENT THE BUSINESS COMMUNITY SOON BEGAN FOCUSING ITS ATTENTION ON SECURING ADDITIONAL GOVT ACTION TO STIMULATE THE ECONOMY.

5. WHETHER A DISCOUNT RATE CUT WILL BE PART OF A FURTHER STIMULATIVE PACKAGE CONTINUES TO BE A SUBJECT OF DEBATE. BOJ APPEARS TO BE CLOSE TO ACCEDING TO THE GROWING PRESSURES FOR A CUT FROM BUSINESS CIRCLES AND OTHERS. FINMIN OHIRA AND GOVERNOR MORINAGA HAD A TETE-A-TETE DEC 7 IN AN APPARENT ATTEMPT TO REACH AGREEMENT ON THE CONTENT OF AN ADDITIONAL STIMULUS PACKAGE. CONCURRENTLY, REPORTS HAVE BEGUN TO CIRCULATE THAT BOJ WINDOW GUIDANCE FOR INCREASE IN BANK LENDING LIMITS IN THE FIRST QUARTER OF 1977, WHICH WILL BE ANNOUNCED SOON, WILL INVOLVE SOMEWHAT SMALLER INCREASES THAN IN BOTH THE FIRST AND FOURTH QUARTERS OF THIS YEAR. THUS THE BOJ REMAINS FAR FROM THE POINT OF SUBSTANTIALLY EASING ITS POLICIES.

6. EPA WHITE PAPER ON THE WORLD ECONOMY RELEASED THIS WEEK PRESENTED A GENERALLY CONVENTIONAL ANALYSIS OF DEVELOPMENTS IN THE PAST YEAR AND OF THE OUTLOOK. (THE PAPER IS LENGTHY AND A TRANSLATION IS NOT AVAILABLE.) PAPER CONCLUDED THAT THE CURRENT WORLD ECONOMIC SITUATION REQUIRES NATIONS IN STRONGER BALANCE OF PAYMENTS POSITION SUCH AS JAPAN, U.S. AND GERMANY, TO COOPERATE AND LEAD THE WAY TOWARD SUSTAINABLE LIMITED OFFICIAL USE

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GROWTH. IN REACHING THIS CONCLUSION, HOWEVER, EPA SHOWED CONCERN ABOUT THE CURRENT TREND TOWARD POLARIZATION BETWEEN THE STRONG AND WEAK CURRENCY NATIONS AND SAID THAT THE SOLUTION TO THAT PROBLEM LIES IN THE LATTER'S EFFORTS TO CONTROL INFLATION.

7. FOLLOWING ARE REGULAR STATISTICAL INDICATORS:

A. AUTO SALES: NOVEMBER AUTO SALES, SEASONALLY ADJUSTED, JUMPED 21.0 PERCENT FROM PRIOR MONTH, BRINGING SALES ABOVE THE 200,000 UNIT MARK FOR FIRST TIME SINCE JULY. ONE MAJOR SOURCE OF INCREASE WAS RAPID RISE IN SALES OF SMALL CARS, ESPECIALLY NISSAN MOTORS' LEADING MODEL, A NEW VERSION OF WHICH WAS INTRODUCED LAST JULY.

PERCENT CHANGE FROM  
THOUSAND CARS PRIOR PERIOD

## QUARTERLY: (MONTHLY AVERAGE)

1975 OCT-DEC	220.9	MIN 1.0
1976 JAN-MAR	198.0	MIN 10.4
APR-JUNE	203.7	2.9
JUL-SEP	207.4	1.8

## MONTHLY:

SEP	198.4	2.9
OCT	183.9 R	MIN 7.3
NOV	222.5 P	21.0

B. AVERAGE PROPENSITY TO SAVE: AVERAGE PROPENSITY TO SAVE (JEI 363) ROSE SHARPLY IN SEP TO REACH HIGHEST LEVEL SINCE FEB. OTHER DATA FROM RECENT SURVEY OF HOUSEHOLD INCOMES AND BUDGETS SHOW DISPOSABLE INCOME UP ONLY 3.2 PERCENT IN NOMINAL TERMS FROM YEAR-EARLIER LEVEL AND DOWN 5.5 PERCENT IN REAL TERMS.

AVERAGE PROPENSITY TO SAVE, SEASONALLY ADJUSTED  
PERCENT OF DISPOSABLE INCOME

## QUARTERLY:

1975 OCT-DEC	21.8
1976 JAN-MAR	23.6
APR-JUNE	21.8
JUL-SEP	22.2

## MONTHLY:

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JULY	21.4
AUG	20.5
SEP	24.6

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## Message Attributes

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